



REPUBLIC OF MOLDOVA

March 11, 2020

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY AND EXTENDED FUND FACILITY ARRANGEMENTS—INFORMATIONAL ANNEX

Prepared By

European Department (in consultation with other
departments and the World Bank)

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FUND RELATIONS

(As of January 31, 2020)

Membership Status: Joined August 12, 1992; Article VIII

General Resources Account:	SDR million	Percent of Quota
Quota	172.50	100.00
IMF holdings of currency	292.67	169.67
Reserve tranche position	0.01	0.00

SDR Department:	SDR million	Percent of Allocation
Net cumulative allocation	117.71	100.00
Holdings	12.91	10.97

Outstanding Purchases and Loans:	SDR million	Percent of Quota
ECF Arrangements	81.13	47.03
Extended Arrangements	120.17	69.67

Latest Financial Arrangements:				
Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	11/07/2016	03/20/2020	86.30	76.70
ECF	11/07/2016	03/20/2020	43.10	38.30
ECF	1/29/2010	4/30/2013	184.80	170.88

Overdue Obligations and Projected Payments to the Fund:

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2020	2021	2022	2023	2024
Principal	41.53	35.29	23.22	12.87	18.20
Charges/Interest	2.82	2.42	2.11	1.89	1.71
Total	44.35	37.71	25.33	14.76	19.91

Safeguards Assessments:

The NBM continues to maintain sound operational controls. The authorities implemented all the recommendations of the 2017 safeguards assessment, including the establishment of a new governance structure with independent oversight, the enhancement of its internal oversight on reserves management, and the update of emergency lending regulations. Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are published on the central bank's website.

Exchange Arrangements:

Moldova has accepted the obligations of Article VIII, Sections 2, 3 and 4, of the Fund's Articles of Agreement. Its exchange system remains free of multiple currency practice or restrictions on payments and transfers for current international transactions.

Moldova's exchange rate regime is classified as "floating". The NBM intervenes in the domestic foreign exchange interbank market in order to smooth out sharp exchange rate fluctuations of the Moldovan leu against the dollar. At the same time, the NBM interventions are not aimed at changing the trend of the exchange rate determined by the market. The NBM publishes the information on its interventions.

The official exchange rate of the Moldovan leu to the U.S. dollar announced by the NBM is determined as the weighted average of daily noncash market transactions performed on the interbank market. The NBM quotes exchange rates of the leu for other currencies on the basis of the leu-U.S. dollar rate and the cross-rate between the U.S. dollar and these currencies.

Article IV Consultations:

The previous Article IV consultation was concluded on December 20, 2017. The staff report (Country Report No. 17/398) was published.

FSAP Participation:

Moldova has undertaken three FSAP assessments:

- 2004 – main mission May 2004; FSSA (Country Report No. 05/64) presented to the Board at the time of the 2004 Article IV discussions and published in February 2005.
- 2007 – main mission October 2007; FSSA (Country Report No. 08/274) presented to the Board with the 2007 Article IV Consultation report and published in August 2008.
- 2014 – main mission March 2014; FSSA (Country Report 16/70) presented to the Board with the 2014 Article IV Consultation report and published in February 2016.

Resident Representative:

Mr. Volodymyr Tulin assumed his duties as Resident Representative on August 21, 2017.

Technical Assistance, 2016–2020		
Department Counterpart	Subject	Timing
MCM	Central Bank Capital Adequacy	April/May 2019
	Monetary Policy Implementation and Operations	March / April 2019
	Strengthening the Forecasting and Policy Analysis System, and Improving Central Bank Communications	June 2017, September 2017, January/February 2019
	Related Party Diagnostics and Reviews	June 2017, September 2017, November 2017
	Emergency Liquidity Assistance	September 2017
	Follow up on Medium-Term Monetary Policy Technical Assistance	September 2017
	Resolution Framework	August 2016
	Deposit Insurance	April 2017, June 2017
	Ultimate Beneficial Owner and Related Party Identification	February 2017
	Bank Resolution	October 2016, November 2016, February 2017
	Review of fit-and-proper rules and bank diagnostics	March 2016, December 2016
	Debt Market Development & Integration of Debt and Cash Management	February, 2016
	Currency Management	April 2016
	Establishing Single Securities Depository	February 2016
FAD	Tax Expenditure Assessment	January 2020
	Public Investment Management Assessment	October 2019
	Fiscal risks and spending reviews	March 2017, January/February 2018, June/July 2018, December 2018, March 2019, April 2019
	Tax and revenue administration	

Technical Assistance, 2016–2020 (concluded)		
Department Counterpart	Subject	Timing
FAD	Selected Income Tax Policy Issues	September 2018
	Income and Property Tax Reforms	March 2018
	TADAT assessment	October 2017
	Improving the High Wealth Individual Compliance Program	October 2017
	Review of Taxation Policies for Personal Income and Vehicle Ownership	July 2017
	Reforming Customs Challenges in Building Rapprochement with the EU Customs Systems	May 2017
	Challenges in Budgeting - Next Steps to Improve Budget Institutions	May 2017
	Improving Compliance Risk Management of Large Taxpayers	April 2017
	Risk Management	March 2017
	Expenditure Rationalization	June 2016
LEG	Legal Frameworks for CSD/CCP and Cent	February 2016, April 2016, November 2016
STA	Sectoral Accounts	September / October 2019
	Government Finance Statistics: Public Sector Debt Statistics	April 2018, October 2019
	Residential Property Price Indices	April 2019
	Financial Soundness Indicators	March 2019
	National Accounts	June 2017, April/May 2018, November 2018, December 2018

RELATIONS WITH THE WORLD BANK GROUP

(As of January 31, 2020)

1. Aligned with the National Development Strategy (Moldova 2020) and with its recent update (Moldova 2030), the World Bank Group (WBG) Country Partnership Framework (CPF) for FY18–21, discussed by the Board on July 27, 2017, supports Moldova’s transition towards a new, more sustainable and inclusive development and growth model through a mix of analytics, advice and financing. The CPF incorporates the three top priorities identified in the Systematic Country Diagnostic namely: (a) strengthening the rule of law and accountability in

economic institutions; (b) improving inclusive access to and the efficiency and quality of public services; and (c) enhancing the quality and relevance of education and training for job-relevant skills. These three priorities defined and informed the CPF's three original focus areas, now validated at mid-term if its implementation through a Performance and Learning Review:

- *Strengthening economic governance:* This pillar focuses on enhancing the quality and implementation of investment climate regulation, strengthening the management of public sector assets, and enhancing financial sector governance and stability in order to de-risk private sector investment for job-creation;
- *Improving service governance:* This pillar focuses on increasing the efficiency and quality of inclusive access to selected public services, including health, energy, and road transport in order to address social exclusion, persistent poverty and vulnerability to shocks, especially in rural areas; and
- *Human capital development:* This pillar focuses on promoting the acquisition of strong generic skills through the education cycle (including enhancing the efficiency of the primary and secondary education) and aligning the education system with labor market demand to enhance its quality and relevance and address persistent skills mismatches in the labor market, mainly through interventions in higher education.

The three areas are supplemented by climate change—a WBG corporate priority—as a cross-cutting theme. Greater adaptation, resilience and response to climate change will help address Moldova's substantial vulnerability to climate-related shocks. All CPF focus areas are informed by the 2017 Country Gender Action Plan (further updated and validated in 2019), which identifies key inequalities to be addressed during the CPF period. Finally, the CPF adopts a citizen engagement approach which will be focused on improving the quality of the engagement process and maintaining the current levels of compliance and implementation.

2. As part of the 2018 concluded budget support operation, the World Bank Group supported a number of reforms to reduce fiscal risks and level the playing field for private sector development in Moldova. It worked in close cooperation with the IMF in the area of financial sector reforms, particularly on strengthening the banking sector governance and on the macro-fiscal framework. This cooperation continues also in the context of renewed policy dialogue with the authorities which focuses on efficiency of public finances, inclusion, and competitiveness and complements the ongoing IMF program under the EFF and the ECF. The most recent areas of cooperation include social sector reforms, particularly pension schemes and energy sector reforms.

3. The WB's active portfolio includes ten investment projects. Total investment project commitments amount to US\$431.3 million, soon to reach US\$470 million with a new intervention in higher education. Future budget support is contingent on the evolution of current discussions with the authorities on a meaningful reform agenda. The size of the active trust fund portfolio, which finances analytical and advisory work and provides co-financing to IDA operations, is approximately US\$17.2 million.

4. IFC's committed portfolio in Moldova is US\$5.4 million, as its larger loans were recently prepaid. IFC's investments span across an array of sectors: agribusiness, manufacturing and infrastructure (municipal and telecoms). IFC has been actively assessing opportunities in key sectors of the economy, including in manufacturing, retail, infrastructure, agribusiness, tourism. Due to the small size of the economy and private sector base, unresolved banking sector issues, persistent governance gaps and political turmoil, in the CPF period IFC focused on the implementation of its Investment Climate Advisory Program conducted jointly with the Bank, which has been instrumental in improving the business enabling environment and deepening the country's financial infrastructure.

5. MIGA currently has one operation in the portfolio with an outstanding exposure of US\$20.9 million in support of Moldova's fragile financial system. While potential guarantees haven't been identified, MIGA will continue seeking opportunities to support CPF objectives in partnership with IBRD/IDA and/or IFC.

RELATIONS WITH THE EBRD

(As of January 31, 2020)

6. As of December 2019, the Bank has invested a total of EUR 1.4 billion through 134 projects in various sectors of Moldova's economy, and EBRD's portfolio in Moldova stood at EUR 597 million with 47 active portfolio projects. Approximately 71 percent of the Bank's portfolio is in the Sustainable Infrastructure sector followed by 16 percent in Industry, Commerce & Agribusiness, with the rest being invested in Financial Institutions. Annual business investment in the recent years has been in the range of EUR 100 million for approximately 10 operations. The Bank continues to maintain extensive policy dialogue across sectors in concert with development partners, including extending support in non-transactional areas such as business climate improvements through its ongoing support to the Economic Council and public procurement providing support to the Government in implementation of electronic procurement system under the WTO GPA trade commitments. The Bank is also actively engaged in energy sector policy dialogue alongside EIB and WB focusing on liberalization of gas and electricity markets and implementation of EU 3rd Energy Package.

7. The Bank's operations in the country are guided by Moldova Country Strategy 2017–2022. The strategy defines the following priority areas:

- *improving governance and strengthening resilience* by leading in the restructuring of the banking sector; and enhancing energy security,

- *enhancing competitiveness* by supporting private firms in building capacity and promoting commercialization of public utilities and infrastructure.

8. The EBRD has been at the forefront of efforts to help the country clean up and modernize its banking sector. Major achievements under the current strategy include supporting the entry of a strategic foreign investor to Victoriabank, third-largest bank, and co-investing in Moldova Agorindbank, the largest commercial bank in the country. Following shareholder transparency and corporate governance restoration, EBRD relaunched lending operations and Trade Facilitation Programme (TFP) with both banks.

9. The Bank continues to engage actively in the energy and infrastructure sectors. In 2019, EBRD provided emergency support to Moldova's energy sector to mitigate the risk of supply disruption in the gas sector and support supply route diversification. The project also entails policy engagement to support the institutional reform of the Moldovan gas sector. Implementation of the project to build permanent interconnection between the electrical networks of Moldova and Romania continues jointly with development partners. In the area of public utilities, the Bank is supporting the city of Balti in purchasing energy efficient, low-floor trolleybuses for the residents of the underserved areas of the city. Efforts to improve implementation capacity of existing public infrastructure clients are ongoing.

10. Banking sector transformation enabled the Bank to strengthen its support to Moldovan micro, small and medium-sized enterprises (MSMEs). Supported by the EU under the EU4Business Initiative, EBRD recently extended credit lines to a number of banks to support SME competitiveness and approximation with EU standards in order to make full use of the opportunities under the Deep and Comprehensive Free Trade Agreement (DCFTA), including with a focus on energy efficiency. In 2019, The Bank provided first Women in Business loan in Moldova. The financing will promote women's entrepreneurship and participation in business by assisting with access to finance, know-how and technical advice. EBRD continues to provide advisory support to local businesses under the Small Business Initiative.

STATISTICAL ISSUES

(As of February 4, 2020)

I. Assessment of Data Adequacy for Surveillance
<p>General:</p> <p>Data provision is broadly adequate for surveillance. Over the last several years, with technical assistance from the Fund the authorities have improved statistics in several areas, including national accounts, fiscal and monetary data, consumer prices, and external trade. Technical assistance is ongoing in the area of price and national accounts statistics.</p>
<p>National Accounts:</p> <p>With the support of STA, the NBS has made good progress in recent years in improving quarterly and annual national accounts which are compiled according to the 2008 SNA. GDP is estimated from the production and the expenditure sides, annually and quarterly. Estimates do not include the Transnistria region for which data have not been collected since 1991.</p>
<p>Price statistics:</p> <p>The NBS publishes monthly CPI and PPI data and began publications of the core CPI from 2010. The weights of the CPI basket are updated on an annual basis to reflect adjustment in consumer expenditures. The PPI could benefit from an extension of coverage to include more services activities. STA is assisting the NBM to compile a residential property index for Chisinau.</p>
<p>Government finance statistics:</p> <p>Moldova reports annual government finance statistics (GFS) based on <i>Government Finance Statistics Manual 2001 (GFSM 2001)</i> methodology for publication in the <i>Government Finance Statistics Yearbook (GFSY)</i>. The data are on a cash basis and cover transactions and stock positions of the general government sector. With the support of Fund TA, the authorities introduced regular dissemination of monthly and semi-annual <i>GFSM 2001</i> based data for the central government units. No monthly GFS are currently reported to the IMF's Statistics Department (STA).</p>
<p>Monetary statistics:</p> <p>Monetary and financial statistics are compiled broadly in line with the Monetary and Financial Statistics Manual. The NBM reports monetary and financial statistics monthly, using Standardized Report Forms (SRFs) for the central bank, other depository corporations, and other financial corporations (OFCs); and monetary data based on these SRFs are published in the International Financial Statistics. The coverage of OFCs can be expanded to include leasing companies once source data become available.</p> <p>The NBM reports data on several series and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).</p>
<p>Financial sector surveillance:</p> <p>The NBM also reports Financial Soundness Indicators (FSIs) on a quarterly basis which include 11 core and 7 encouraged indicators for deposit takers. FSIs are posted on the FSI webpage.</p>

I. Assessment of Data Adequacy for Surveillance (concluded)	
External sector statistics:	
The balance of payments and international investment position (IIP) statistics have been compiled fully in line with the sixth edition of Balance of Payments and International Investment Position Manual (BPM6): balance of payments starting with data for 2009, and IIP starting with data for 2001. The time series prior to the years indicated above are on BPM5 basis. Besides the balance of payments and IIP statistics, Moldova disseminates other external sector statistics (EES) datasets such as external debt statistics, international reserves statistics, and coordinated direct investment survey. All ESS datasets are compiled and disseminated with prescribed SDDS periodicity and timeliness.	
II. Data Standards and Quality	
Moldova subscribed to the SDDS in May 2006.	A data ROSC report was published in March 2006.

Moldova: Table of Common Indicators Required for Surveillance

(As of January 31, 2020)

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶
Exchange Rates	December 2019	1/20/2020	D/M	D	D/M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	December 2019	1/20/2020	W/M	W	M
Reserve/Base Money	December 2019		M	M	M
Broad Money	December 2019	1/20/2020	-M	M	M
Central Bank Balance Sheet	December 2019	1/14/2020	M	M	M
Consolidated Balance Sheet of the Banking System	December 2019	1/20/2020	M	M	M
Interest Rates ²	December 2019	1/20/2020	M	M	M
Consumer Price Index	December 2019	1/23/2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ -General Government ⁴	December 2019	January 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ - Central Government	December 2019	January 2020	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	December 2018	October 2019	A	A	A
External Current Account Balance	Q3/2019	12/31/2019	Q	Q	Q
Exports and Imports of Goods and Services	Q3/2019	12/27/2019	Q	Q	Q
GDP/GNP	Q3/2019	December 2019	Q	Q	Q
Gross External Debt	Q3/2019	12/31/2019	Q	Q	Q
International Investment Position	Q3/2019	12/31/2019	Q	Q	Q

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, state social security funds, and health insurance funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).